

M I HOMES INC
Form 10-K
February 25, 2009
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 1-12434

M/I HOMES, INC.
(Exact name of registrant
as specified in its charter)

Ohio 31-1210837
(State or other (I.R.S.
jurisdiction Employer
of
incorporation Identification
or No.)
organization)

3 Easton Oval, Suite 500,
Columbus, Ohio 43219
(Address of principal
executive offices) (Zip
Code)

Registrant's telephone
number, including area
code: (614) 418-8000

Securities registered pursuant to Section 12(b) of the Act:

	Name of each exchange
	on
Title of each class	which registered
Common Shares, par value	New York Stock
\$.01	Exchange

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Depository Shares, each
representing 1/1000th
of a 9.75% Series A
Preferred Share

New York Stock
Exchange

Securities registered pursuant to Section 12(g) of the Act:

None
(Title
of
Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated file" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

L a r g e
accelerated filer

Accelerated filer

Non-accelerated
filer

Smaller reporting
company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

As of June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of voting common shares held by non-affiliates of the registrant (13,257,051 shares) was approximately \$208,533,000. The number of common shares of the registrant outstanding on February 18, 2009 was 14,023,982.

DOCUMENT INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for the 2009 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

ITEM 1. BUSINESS

Company

M/I Homes, Inc. and subsidiaries (the “Company” or “we”) is one of the nation’s leading builders of single-family homes. The Company was incorporated, through predecessor entities, in 1973 and commenced homebuilding activities in 1976. Since that time, the Company has sold and delivered over 73,000 homes. We sell and construct single-family homes, attached townhomes and condominiums to first-time, move-up, empty-nester and luxury buyers under the M/I Homes and Showcase Homes trade names. In 2008, our average sales price of homes delivered was \$274,000 compared to \$296,000 in 2007. During the year ended December 31, 2008, we delivered 2,025 homes with revenues from continuing operations of \$607.7 million and a net loss from continuing operations of \$245.4 million. At December 31, 2008, we had 566 homes in backlog with a sales value of approximately \$139 million compared to 712 homes with a sales value of \$220 million at December 31, 2007.

Our homes are sold in the following geographic markets - Columbus and Cincinnati, Ohio; Indianapolis, Indiana; Chicago, Illinois; Tampa and Orlando, Florida; Charlotte and Raleigh, North Carolina; and the Virginia and Maryland suburbs of Washington, D.C. In late 2007, we announced our intention to exit our West Palm Beach, Florida market. Hence, the results of operations and financial position of this division have been reported as discontinued operation. For additional information on this discontinued operation, please refer to Note 2 to our Consolidated Financial Statements. We are the leading homebuilder in the Columbus, Ohio market, and have been the number one builder of single-family detached homes in this market for each of the last twenty years. In addition, we are one of the top ten homebuilders in the Cincinnati and Tampa markets, based on homes delivered. Our current operating strategy remains focused on the following key initiatives:

- Generating cash and preserving liquidity;
- Emphasizing our customer service, unique product designs, and premier locations;
- Improving affordability through design changes and other cost reduction efforts;
- Decreasing our construction costs for material and labor;
- Decreasing our overhead expenses and headcount to reflect current business conditions;
- Reducing our land and lot inventory by significantly curtailing our land purchases and transitioning more of our purchases to finished lots versus raw ground; and
- Phasing and/or delaying land development and selectively pursuing the sale of certain owned land.

We believe that we distinguish ourselves from competitors by offering homes in select areas with a high level of design and construction quality within a given price range, and by providing customers with the confidence they can only get from superior customer service. Offering homes at a variety of price points allows us to attract a wide range of buyers. We support our homebuilding operations by providing mortgage financing services through our wholly-owned subsidiary, M/I Financial Corp. (“M/I Financial”), and title and insurance brokerage services through subsidiaries that are either wholly- or majority-owned by the Company.

Our financial reporting segments consist of the following: Midwest homebuilding, Florida homebuilding, Mid-Atlantic homebuilding, and financial services. Our homebuilding operations comprise the most substantial part of our business, representing more than 97% of consolidated revenue during 2008. Our homebuilding operations generate over 93% of their revenue from the sale of completed homes, with the remaining amount generated from the sale of land and lots. Our financial services operations generate revenue from originating and selling mortgages, collecting fees for title insurance and closing services, and collecting commissions as a broker of property and casualty insurance policies. Financial information, including revenue, operating income and identifiable assets for each of our reporting segments is included in Note 25 to our Consolidated Financial Statements.

The United States is in the midst of an unprecedented combination of economic turmoil, uncertainty in the credit and financial markets, and weak consumer confidence. Since the fourth quarter of fiscal 2005, we have experienced a slowdown in our business. This slowdown has worsened over the past several months. This slowdown, which we believe started with a decline in consumer confidence, an overall softening of demand for new homes, and an oversupply of homes available for sale, has been exacerbated by, among other things, a decline in the overall economy, increasing unemployment, fear of job loss, a significant decline in the securities markets, the continuing decline in home prices, the large number of homes that are or will be available due to foreclosures, the inability of some of our home buyers to sell their current home, the deterioration in the credit markets, and the direct and includes, among other

indirect impact of the turmoil in the mortgage loan market. On February 17, 2009, President Obama signed the \$787 billion American Recovery and Reinvestment Act into law. This stimulus package things, an \$8,000 tax credit for new home purchases that occur between January 1, 2009 and December 1, 2009. We continue our primarily defensive strategy, which includes: (1) adjusting our approach to land acquisition and development and construction practices and continue to shorten our land pipeline; (2) limiting land development expenditures; (3) reducing production volumes; and (4) working to try to balance home price and profitability with sales pace, although our primary focus at this point is generating cash and liquidity.

When our industry recovers, we believe that we will see reduced competition from the small and mid-sized private builders, leading to our ability to increase our market share in our existing markets. We believe that the access of these private builders to capital already appears to be severely constrained. We believe that this reduced competition, combined with attractive long-term demographics, will reward those builders who can persevere through the current challenging environment.

Notwithstanding the current market conditions, and as market conditions improve over time, we believe that geographic and product diversification, access to lower-cost capital, and strong demographics have in the past, and will in the future, benefit those builders that can control land and persevere through the increasingly difficult regulatory approval process. We believe that these factors favor the large publicly traded homebuilding companies with the capital and expertise to control home sites and gain market share. We believe that, as builders reduce the number of home sites being taken through the approval process and this process continues to become more difficult, and if the political pressure from no-growth proponents continues to increase, our expertise in taking land through the approval process and our already approved land positions will allow us to grow in the years to come.

In addition to our current focus on cash generation and liquidity, we will continue to focus on our historic key business strategies. We believe that these strategies separate us from our competitors in the residential homebuilding industry and the adoption, implementation, and adherence to these principles will continue to improve our business, lead to higher profitability for our shareholders, and give us a clear advantage over our competitors when the market returns to normalcy.

For information and analyses of recent trends in our operations and financial condition, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of this Form 10-K, and for financial information about our revenues, earnings, assets, liabilities, shareholders’ equity and cash flows, please see the accompanying consolidated financial statements and notes thereto in Item 8 of this Form 10-K.

Our business strategy emphasizes the following:

Build confidence in all areas of our company. Our unique designs, superior quality and craftsmanship, premier customer service and customer-focused, confidence-building financing options are all designed to build superior customer confidence in both our product and our company.

Superior homeowner service. Our core operating philosophy is to provide superior service to our homeowners. We attempt to involve the homeowner in many phases of the building process in order to enhance communication, knowledge and involvement of the homeowner. Our selling process focuses on the homes’ features, benefits, quality and design, as opposed to merely price and square footage. In most of our markets, we utilize design centers to better promote the sale of options and enable buyers to make more informed choices. This enhances the selling process and increases the sale of optional features that typically carry higher margins. We believe all of this leads to a more satisfied homeowner.

Product diversity and innovative design. We devote significant resources to the research and design of our homes to meet the needs of our buyers. We offer a broad number of distinct product lines and approximately 600 different floor

plans, with some of those floor plans being built in multiple elevations. We also offer a high level of design and construction quality within each of our price ranges.

Premier locations and highly desirable communities. As a key strategic element of our business, we focus on locating and controlling land in the most desirable areas of our markets. We also focus on the overall design and appearance of our communities. Through our community planning and design process, we create well-planned communities with careful attention to a wide variety of aesthetic elements. We focus on the location and design of our communities because we believe these are important factors our homebuyers consider when making a decision to purchase a new home.

Maintain market position in existing markets. Though most of our markets have experienced a significant slowdown in new homebuilding construction as a result of various economic factors, we believe in their long term prospects for growth and successful homebuilding operations.

Sales and Marketing

Throughout our markets, we market and sell our homes exclusively under the M/I Homes trade name, except in Columbus, where we also market a collection of homes under the Showcase brand. Company-employed sales personnel conduct home sales from on-site offices within our furnished model homes. Each sales consultant is trained and prepared to meet the buyer's expectations and build their confidence by fully explaining the features and benefits of our homes, helping each buyer determine which home best suits their needs, explaining the construction process, and assisting the buyer in choosing the best financing. Significant attention is given to the ongoing training of all sales personnel to assure the highest level of professionalism and product knowledge. As of December 31, 2008, we employed 96 sales consultants in 128 communities.

We advertise using newspapers, magazines, direct mail, billboards, radio and television. The particular marketing mediums used differ from market to market based on area demographics and other competitive factors. We have also significantly increased our advertising on the internet through expansion of our website at mihomes.com and through third party websites like newhomesource.com. Our messaging across all of these mediums, promotional or otherwise, is unified, highly synergistic and designed to build strong equity in the M/I Homes brand. In addition, we encourage independent broker participation and, from time to time, utilize promotions and incentives to attract interest from these brokers. Our commitment to quality design and construction, along with our reputation for superior service, has resulted in a strong referral base and numerous repeat buyers.

To further enhance the selling process, we operate design centers in most of our markets. These design centers are staffed with interior design specialists who assist buyers in selecting interior and exterior colors, standard options and upgrades. From time to time, we also add to the selling process by offering, below-market financing options to our customers. M/I Financial originates loans for the majority of the purchasers of our homes. The loans are then sold, along with the servicing rights, to outside mortgage lenders. Title-related services are provided to purchasers of our homes in the majority of our markets through affiliated entities. Our financial services segment also collects commissions as a broker of property and casualty insurance policies through a majority-owned subsidiary, M/I Insurance Agency, LLC.

We generally begin construction of a home when we have obtained a sales contract and preliminary oral advice from the buyer's lender that financing should be approved. In certain markets, contracts may be accepted contingent upon the sale of an existing home, and construction may be authorized through a certain phase prior to satisfaction of that contingency. In addition, speculative, or "spec," homes (i.e., homes started in the absence of an executed contract) are built to facilitate delivery of homes on an immediate-need basis and to provide presentation of new products.

Design and Construction

We devote significant resources to the research, design and development of our homes in order to distinguish ourselves from other homebuilders and fulfill the needs of homebuyers in all of our markets. We currently offer approximately 600 different floor plans that are tailored to meet the requirements of buyers within each of our markets. However, we are in the process of reviewing our floor plan offerings and intend to scale the number back without compromising our customers' design needs. We spent \$1.7 million, \$2.5 million and \$4.7 million in the years ended December 31, 2008, 2007 and 2006, respectively, for research and development of our homes.

The construction of each home is supervised by a Personal Construction Supervisor who reports to a Production Manager, both of whom are employees of the Company. Buyers are introduced to their Personal Construction

Supervisor prior to commencement of home construction at a pre-construction “buyer/builder conference.” The purpose of this conference is to review the home plan and all relevant construction details and to explain the construction process and schedule. We encourage our buyers to actively monitor and observe the construction of their home and see the quality being built into their home. All of this is part of our exclusive “Confidence Builder Program” which, consistent with our business philosophy, is designed to “put the buyer first” and enhance the total home-buying experience.

Homes generally are constructed according to standardized designs and meet applicable Federal Housing Authority (“FHA”) and Veterans Administration (“VA”) requirements. To allow maximum design flexibility, we limit the use of pre-assembled building components. The efficiency of the building process is enhanced through the use of standardized materials available from a variety of sources. We utilize independent subcontractors for the installation

of site improvements and the construction of our homes. Our on-site construction supervisors manage the development and construction process. Subcontractor work is performed pursuant to written agreements. The agreements are generally short-term, with terms from six to twelve months, and specify a fixed price for labor and materials. The agreements are structured to provide price protection for a majority of the higher-cost phases of construction for homes in our backlog. The construction of our homes typically takes approximately four to six months from the start of construction to completion of the home, depending on the size and complexity of the particular home being built. We did not experience any significant issues with availability of building materials or skilled labor during 2008. As of December 31, 2008, we had a total of 566 homes, with \$139.5 million aggregate sales value, in backlog in various stages of completion, including homes that are under contract but for which construction has not yet begun. As of December 31, 2007, we had a total of 712 homes, with \$219.5 million aggregate sales value, in backlog. Homes included in year-end backlog are typically included in homes delivered in the subsequent year.

Warranty

We provide a variety of warranties in connection with our homes and have a program to perform several inspections on each home that we sell. Immediately prior to closing and again approximately three months after a home is delivered, we inspect each home with the buyer. At the homeowner's request, we will also provide a one-year drywall inspection. In 2007, the Company implemented a new limited warranty program ("Home Builder's Limited Warranty") in conjunction with its thirty-year transferable structural limited warranty on homes closed after the implementation date. The Home Builder's Limited Warranty covers construction defects for a statutory period based on geographic market and state law (currently ranging from five to ten years for the states in which the Company operates) and includes a mandatory arbitration clause. Prior to this new warranty program, the Company provided up to a two-year limited warranty on materials and workmanship and a twenty-year (for homes closed between 1989 and 1998) and a thirty-year (for homes closed during or after 1998) limited warranty against major structural defects. To increase the value of the thirty-year warranty, the warranty is transferable in the event of the sale of the home. The Home Builder's Limited Warranty provides coverage for construction defects and certain resultant damage caused by any construction defects. The warranty period varies by state in accordance with the statute of limitations for construction defects for each state. We also pass along to our homebuyers all warranties provided by the manufacturers or suppliers of components installed in each home. Our warranty expense was approximately 1.1%, 0.8% and 0.7% of total housing revenue for the years ended December 2008, 2007 and 2006, respectively.

Markets

Our operations are organized into nine homebuilding divisions within three regions to maximize operating efficiencies and use of local management. Our current homebuilding operating structure is as follows:

Region	Division	Year Operations Commenced
Midwest	Columbus, Ohio	1976
Midwest	Cincinnati, Ohio	1988
Midwest	Indianapolis, Indiana	1988
Midwest	Chicago, Illinois	2007
Florida	Tampa, Florida	1981
Florida	Orlando, Florida	1984
Mid-Atlantic	Charlotte, North Carolina	1985
Mid-Atlantic	Raleigh, North Carolina	1986
Mid-Atlantic	Washington D.C.	1991

Columbus is the capital of Ohio, with federal, state and local governments providing significant employment. Private industries including education, healthcare, and professional services have notably contributed to this market as well. The job market in Columbus has remained relatively healthy compared to other cities in the midwest, despite the job losses in manufacturing and construction. Relative incomes in Columbus have remained healthy and better than average credit conditions continue to exist in the Columbus area. Single-family permits were approximately 2,700 in 2008, a decline of 39% from 2007's permits of approximately 4,400. Columbus is our home market, where we have had operations since 1976.

Cincinnati has been characterized by an employment base highly concentrated in the service-producing industry, which is now accounting for the bulk of the job losses. The area has also experienced a decline in the

manufacturing, construction, and retail sectors. Cincinnati is home to a large aviation company that is benefiting from a strong global demand for aerospace products. Single-family permits were approximately 3,300 in 2008, a decline of 38% from 2007's permits of nearly 5,300.

Indianapolis is a market noted for its diverse industry, and remains one of the sturdiest markets in the Midwest. Significant industries include pharmaceuticals, construction, leisure/hospitality, transportation/utilities and retail services. Single-family permits were approximately 4,400 in 2008, a decline of 38% from 2007's permits of approximately 7,100.

Chicago is the business center of the Midwest and remains under pressure as a result of the contracting financial services/professional service industries as well as the declining tourism. High per capita incomes and an educated workforce remain positive opportunities in this Midwest marketplace. Single-family permits were approximately 7,800 in 2008, a decline of 57% from 2007's permits of approximately 18,200.

Tampa's healthcare and tourism industries have been resilient, but that resilience is being over powered by the job losses in construction and professional services. The local university has provided a source of stability, and large research and development firms are opening research facilities in Tampa. Single-family housing permits were approximately 5,100 in 2008 compared to approximately 8,100 in 2007, a decline of 37%.

Orlando's rising healthcare industry and growing defense systems will mitigate the declines in construction and retail trade industries. A steady supply of educated workers will aid in the eventual recovery of high-tech and manufacturing industries in Orlando and continued tourism and entertainment spending will eventually help this local economy rebound as well. In 2008, single-family permits were approximately 5,300, a decline of 55% from 2007's permits of approximately 11,800.

Charlotte is home to numerous firms in the banking industry, which has resulted in very challenging times for this Southeast marketplace. However, Charlotte's demographics continue to support long-term growth, with its mix of industries, educated workforce, and comparatively low living and business costs. In 2008, housing activity decreased 52% with approximately 7,300 single-family permits compared to approximately 15,200 in 2007.

Raleigh is the capital of North Carolina, with state government, three major universities within the greater metro area, and pharmaceutical and biotech industries contributing to its employment base. Raleigh has experienced similar challenges in falling prices and unemployment rate increases, however this market has proven to be more resilient to the economy struggles compared to others. The educated workforce and strong technology and healthcare sectors will continue to be opportunities for growth in this Southeast marketplace. Single-family housing permits declined almost 43% in 2008 with approximately 9,400 single-family permits compared to approximately 16,600 in 2007.

Washington, D.C.'s major contributors to employment come from the construction, technology and government sectors. Federal government hiring is driving growth in numerous industries. Information technology growth will help offset weakness in the economy for Washington, D.C. Single-family housing permits were approximately 13,100 in 2008 compared to approximately 21,300 in 2007, a decline of 39%. Our operations are located throughout the Maryland and Virginia suburbs of Washington, D.C.

Product Lines

On a regional basis, we offer homes ranging in base sales price from approximately \$100,000 to \$900,000, and ranging in square footage from approximately 1,200 to 4,500 square feet. In addition to single-family detached homes, we also offer attached townhomes in most of our markets as well as condominiums in our Columbus, Orlando, and Washington, D.C. markets. By offering a wide range of homes, we are able to attract first-time, move-up, empty-nester and luxury homebuyers. It is our goal to sell more than one home to our buyers, and we have frequently

been successful in this pursuit.

In each of our home lines, upgrades and options are available to the homebuyer for an additional charge. Major options include fireplaces, additional bathrooms and higher-quality flooring, cabinets and appliances. The options are typically more numerous and significant on our more expensive homes, and typically carry a higher margin than our standard selections.

Land Acquisition and Development

In 2008, our percent of land internally developed increased to 88% compared to 85% in 2007. In the future, we plan to source the majority of our land through developed lot option contracts. We continue to constantly evaluate our

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alternatives to satisfy the need for lots in the most cost effective manner. We seek to limit our investment in land and lots to the amount reasonably expected to be sold in the next two to three years.

To limit the risk involved in land ownership, we acquire land primarily through the use of contingent purchase agreements. These agreements require the approval of our corporate land committee and frequently condition our obligation to purchase land upon approval of zoning, utilities, soil and subsurface conditions, environmental and wetland conditions, market analysis, development costs, title matters and other property-related criteria. Only after this thorough evaluation has been completed do we make a commitment to purchase undeveloped land.

We periodically enter into limited liability company (“LLC”) arrangements with other entities to develop land. At December 31, 2008, we had interests varying from 33% to 50% in each of our seven LLCs. Two of the LLCs are located in Tampa, Florida, and the remaining LLCs are located in Columbus, Ohio. One of the LLCs has obtained financing from a third party lender, and all of the remaining LLCs are equity financed by the Company and our partners in the LLCs.

During the development of lots, we are required by some municipalities and other governmental authorities to provide completion bonds or letters of credit for sewer, streets and other improvements. At December 31, 2008, \$37.8 million of completion bonds and \$25.2 million of letters of credit were outstanding for these purposes.

We seek to balance the economic risk of owning lots and land with the necessity of having lots available for our homes. At December 31, 2008, we had 4,038 developed lots and 294 lots under development in inventory. We also owned raw land expected to be developed into approximately 3,713 lots. In addition, at December 31, 2008, our interest in lots held by unconsolidated LLCs consisted of no unsold lots, 58 lots under development, and raw land expected to be developed into 694 lots.

Our ability to continue development activities over the long-term will be dependent upon, among other things, a suitable economic environment and our continued ability to locate and enter into options or agreements to purchase land, obtain governmental approvals for suitable parcels of land, and consummate the acquisition and complete the development of such land.

At December 31, 2008, we had purchase agreements to acquire 809 developed lots and raw land to be developed into approximately 117 lots for a total of 926 lots, with an aggregate current purchase price of approximately \$45.6 million. Purchase of these properties is generally contingent upon satisfaction of certain requirements by us and the sellers, such as zoning approval and availability of building permits. We currently believe that our maximum exposure as of December 31, 2008 related to these agreements is equal to the amount of our outstanding deposits, which totaled \$3.7 million, including cash deposits of \$1.1 million, prepaid acquisition costs of \$0.3 million, letters of credit of \$2.1 million, and corporate promissory notes of \$0.2 million. Further details relating to our land option agreements are included in Note 14 to our Consolidated Financial Statements.

The following table sets forth our land position in lots (including lots held in unconsolidated LLCs) at December 31, 2008:

	Finished	Lots Owned		Total	Lots	
		Lots Under	Undeveloped		Lots	Under
Region	Lots	Development	Lots	Owned	Contract	Total
Midwest	1,858	149	3,227	5,234	521	5,755
Florida	1,232	102	551	1,885	73	1,958
Mid-Atlantic	948	101	629	1,678	332	2,010
Total	4,038	352	4,407	8,797	926	9,723

Financial Services

We provide mortgage financing services to purchasers of our homes through M/I Financial. M/I Financial provides financing services in all of our housing markets. During the year ended December 31, 2008, we captured 85% of the available business from purchasers of our homes, originating approximately \$383.0 million of mortgage loans. The mortgage loans originated by M/I Financial are sold to a third party generally within two weeks of originating the loan.

M/I Financial has been approved by the Department of Housing and Urban Development and the Veterans Administration to originate mortgages that are insured and/or guaranteed by these entities. In addition, M/I Financial has been approved by the Federal Home Loan Mortgage Corporation (“Freddie Mac”) and by the Federal National Mortgage Association (“Fannie Mae”) as a seller and servicer of mortgages.

We also provide title services to purchasers of our homes through our wholly-owned subsidiaries, TransOhio Residential Title Agency, Ltd. and M/I Title Agency, Ltd, and our majority-owned subsidiary, Washington/Metro Residential Title Agency, LLC. Through these entities, we serve as a title insurance agent by providing title insurance policies, examination and closing services to purchasers of our homes in all of our housing markets except Raleigh, Charlotte and Chicago. We assume no underwriting risk associated with the title policies. In addition, we collect commissions as a broker of property and casualty insurance policies through M/I Insurance Agency, LLC, a majority-owned subsidiary. As a broker, the Company does not retain any risk associated with these insurance policies.

Corporate Operations

Our corporate operations and home office are located in Columbus, Ohio, where we perform the following functions at a centralized level:

- Establish strategy, goals and operating policies;
- Ensure brand integrity and consistency across all local and regional communications;
- Monitor and manage the performance of our operations;
- Allocate capital resources;
- Provide financing and perform all cash management functions for the Company, as well as maintain our relationship with lenders;
- Maintain centralized information and communication systems; and
- Maintain centralized financial reporting and internal audit functions.

Competition

In each of our markets, we compete with numerous national, regional, and local homebuilders, some of which have greater financial, marketing, land acquisition, and sales resources. Builders of new homes compete not only for homebuyers, but also for desirable properties, financing, raw materials, and skilled subcontractors. In addition, we also face competition with foreclosures and the existing home resale market, which has become over saturated with homes due to current market conditions and a higher foreclosure rate. We compete primarily on the basis of price, location, design, quality, service, and reputation; however, we believe our financial stability, relative to most others in our industry, has become an increasingly favorable competitive factor. When our industry recovers, we believe that we will see reduced competition from the small and mid-sized private builders in the luxury market. Their access to capital already appears to be severely constrained. We envision that there will be fewer and more selective lenders serving our industry at that time. We believe that those lenders likely will gravitate to the home building companies that offer them the greatest security, the strongest balance sheets, and the broadest array of potential business opportunities.

Our financial services operations compete with other mortgage lenders, including national, regional, and local mortgage bankers and brokers, banks, savings and loan associations, and other financial institutions, in the origination and sale of mortgage loans. Principal competitive factors include interest rates and other features of mortgage loan products available to the consumer.

Regulation and Environmental Matters

The homebuilding industry, including the Company, is subject to various local, state and federal (including FHA and VA) statutes, ordinances, rules and regulations concerning zoning, building, design, construction, sales, and similar matters. These regulations affect construction activities, including types of construction materials that may be used, certain aspects of building design, sales activities, and dealings with consumers. We are required to obtain licenses, permits and approvals from various governmental authorities for development activities. In many areas, we are

subject to local regulations which impose restrictive zoning and density requirements in order to limit the number of homes within the boundaries of a particular locality. We strive to reduce the risks of restrictive zoning and density requirements by using contingent land purchase agreements, which state that land must meet various requirements, including zoning, prior to our purchase.

Development may be subject to periodic delays or precluded entirely due to building moratoriums. Generally, these moratoriums relate to insufficient water or sewage facilities or inadequate road capacity within specific market areas or communities. The moratoriums we have experienced have not been of long duration and have not had a material effect on our business.

Each of the states in which we operate has a wide variety of environmental protection laws. These laws generally regulate developments which are of substantial size and which are in or near certain specified geographic areas. Furthermore, these laws impose requirements for development approvals which are more stringent than those that land developers would have to meet outside of these geographic areas.

Furthermore, these laws impose requirements for development approvals which are more stringent than those that land developers would have to meet outside of these geographic areas.

Additional requirements may be imposed on homebuilders and developers in the future, which could have a significant impact on us and the industry. Although we cannot predict the effect of any such additional requirements, such requirements could result in time-consuming and expensive compliance programs. In addition, the continued effectiveness of current licenses, permits or development approvals is dependent upon many factors, some of which may be beyond our control.

Seasonality

Our homebuilding operations experience significant seasonality and quarter-to-quarter variability in homebuilding activity levels. In general, homes delivered increase substantially in the second half of the year. We believe that this seasonality reflects the tendency of homebuyers to shop for a new home in the spring with the goal of closing in the fall or winter, as well as the scheduling of construction to accommodate seasonal weather conditions. Our financial services operations also experience seasonality because loan originations correspond with the delivery of homes in our homebuilding operations.

Compliance Policy

We have a Code of Business Conduct and Ethics that requires every employee, officer and director to at all times deal fairly with the Company's customers, subcontractors, suppliers, competitors and employees, and indicates that all of our employees, officers and directors comply at all times with all applicable laws, rules and regulations. Our Code of Business Conduct and Ethics also has procedures in place that allow whistleblowers to submit their concerns regarding our operations, financial reporting, business integrity or any other related matter to the Company's General Counsel, thus ensuring their protection from retaliation.

Corporate Governance

We remain committed to our shareholders in fostering sound corporate governance principles. The Company's Corporate Governance Guidelines assist the Board of Directors of the Company (the "Board") in fulfilling its responsibilities related to corporate governance conduct. These guidelines serve as a framework, addressing the function, structure, and operations of the Board, for purposes of promoting consistency of the Board's role in overseeing the work of management.

Employees

At December 31, 2008, we employed 504 people (including part-time employees), of which 378 were employed in homebuilding operations, 52 were employed in financial services and 74 were employed in management and administrative services. No employees are represented by a collective bargaining agreement.

NYSE Certification

We submitted our 2007 Annual CEO Certification with the New York Stock Exchange on May 14, 2008. The certification was not qualified in any respect.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These filings are available to the public over the internet on the SEC's website at

www.sec.gov. Our periodic reports and other information filed with the SEC may be inspected without charge and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room.

Our principal internet address is mihomes.com. We make available, free of charge, on or through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our website also includes printable versions of our Corporate Governance guidelines, our Code of Business Conduct and Ethics, and Charters for each of our Audit, Compensation and Nominating and Corporate Governance Committees. The contents of our website are not part of this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

Factors That May Affect Our Future Results (Cautionary Statements Under the Private Securities Litigation Reform Act of 1995):

Certain information included in this report or in other materials we have filed or will file with the SEC (as well as information included in oral statements or other written statements made or to be made by us) contains or may contain forward-looking statements, including, but not limited to, statements regarding our future financial performance and financial condition. Words such as “expects,” “anticipates,” “envisions,” “targets,” “goals,” “projects,” “intends,” “plans,” “seeks,” “estimates,” variations of such words and similar expressions are intended to identify such forward-looking statements. These statements involve a number of risks and uncertainties. Any forward-looking statements that we make herein and in future reports and statements are not guarantees of future performance, and actual results may differ materially from those in such forward-looking statements as a result of various factors relating to the economic environment, interest rates, availability of resources, competition, market concentration, land development activities and various governmental rules and regulations, as more fully discussed in this Risk Factors section. Any forward-looking statement speaks only as of the date made. Except as required by applicable law or the rules and regulations of the SEC, we undertake no obligation to publicly update any forward-looking statements or risk factors, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in our subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995, and all of our forward-looking statements are expressly qualified in their entirety by the cautionary statements contained or referenced in this section.

Discussions of our business and operations included in this Annual Report on Form 10-K should be read in conjunction with the risk factors set forth below. The following cautionary discussion of risks, uncertainties and assumptions relevant to our business includes factors we believe could cause our actual results to differ materially from expected and historical results. Other factors beyond those listed below, including factors unknown to us and factors known to us which we have not currently determined to be material, could also adversely affect us.

Homebuilding Market and Economic Risks

The U.S. economy is in the midst of an unprecedented combination of economic turmoil, uncertainty in the credit and financial markets, and worldwide concerns of a financial collapse. Prolonged conditions of this nature could severely impact our ability to operate.

The sharp slow-down in the United States (“U.S.”) economy, coupled with an ongoing credit crisis and volatility in the financial markets, could cause continued erosion in home prices and/or demand, and cause further significant inventory write-downs, as well as a reduction in our ability to generate cash flow from operations.

The homebuilding industry is undergoing a significant downturn, and its duration and ultimate severity are uncertain in the current state of the economy; continued slowdown in our business will continue to adversely affect our operating results and financial condition.

The downturn in the homebuilding industry, which is in its fourth year, has become one of the most severe in U.S. history. This downturn, which we believe started with a decline in consumer confidence, a decline in home prices, and an oversupply of homes available for sale, has been exacerbated by, among other things, a decline in the overall economy, increasing unemployment, fear of job loss, a decline in the securities markets, the number of homes that are or will be available for sale due to foreclosures, an inability of home buyers to sell their current homes, a deterioration in the credit markets, and the direct and indirect impact of the turmoil in the mortgage loan market. All of these factors, in an economy that is now in recession, have contributed to the significant decline in the demand for new homes. Moreover, the government’s legislative and administrative measures aimed at restoring liquidity to the credit

markets and providing relief to homeowners facing foreclosure have only recently begun. It is unclear whether, and to what extent, these measures will effectively stabilize prices and home values or restore consumer confidence and increase demand in the homebuilding industry.

As a result of this prolonged downturn, our sales and results of operations have been adversely affected. We have incurred significant inventory impairments and other write-offs, our gross margins have declined significantly, and we incurred a substantial loss, after write-offs, during 2008. We cannot predict the duration or ultimate severity of the current challenging conditions, nor can we provide assurance that our responses to the current downturn or the government's attempts to address the troubles in the economy will be successful. If these conditions persist or continue to worsen, they will further adversely affect our operating results and financial condition.

Demand for new homes is sensitive to economic conditions over which we have no control, such as the availability of mortgage financing.

Demand for homes is sensitive to changes in economic conditions such as the level of employment, consumer confidence, consumer income, the availability of financing, and interest rate levels. The mortgage lending industry has and may continue to experience significant challenges. As a result of increased default rates, particularly (but not entirely) with regard to sub-prime and other non-conforming loans, many lenders have reduced their willingness to make, and tightened their credit requirements with regard to, residential mortgage loans. Fewer loan products and stricter loan qualification standards have made it more difficult for some borrowers to finance the purchase of our homes. Although our financial services subsidiary offers mortgage loans to potential buyers of most of the homes we build, we may no longer be able to offer financing terms that are attractive to our potential buyers. Unavailability of mortgage financing at acceptable rates reduces demand for the homes we build, including, in some instances, causing potential buyers to cancel contracts they have signed.

Increasing interest rates could cause defaults for homebuyers who financed homes using non-traditional financing products, which could increase the number of homes available for resale.

During the period of high demand in the homebuilding industry prior to 2006, many homebuyers financed their purchases using non-traditional adjustable rate or interest only mortgages or other mortgages, including sub-prime mortgages, that involved, at least during initial years, monthly payments that were significantly lower than those required by conventional fixed rate mortgages. As a result, new homes became more affordable. However, as monthly payments for these homes increase, either as a result of increasing adjustable interest rates or as a result of principal payments coming due, some of these homebuyers could default on their payments and have their homes foreclosed, which would increase the inventory of homes available for resale. Foreclosure sales and other distress sales may result in further declines in market prices for homes. In an environment of declining prices, many homebuyers may delay purchases of homes in anticipation of lower prices in the future. In addition, as lenders perceive deterioration in credit quality among homebuyers, lenders have been eliminating some of the non-traditional and sub-prime financing products previously available and increasing the qualifications needed for mortgages or adjusting their terms to address increased credit risk. In addition, tighter lending standards for mortgage products and volatility in the sub-prime and alternative mortgage markets may have a negative impact on our business by making it more difficult for certain of our homebuyers to obtain financing or resell their existing homes. In general, to the extent mortgage rates increase or lenders make it more difficult for prospective buyers to finance home purchases, it becomes more difficult or costly for customers to purchase our homes, which has an adverse affect on our sales volume.

Our land investment exposes us to significant risks, including potential impairment write-downs, that could negatively impact our profits if the market value of our inventory declines.

We must anticipate demand for new homes several years prior to those homes being sold to homeowners. There are significant risks inherent in controlling or purchasing land, especially as the demand for new homes decreases. There is often a significant lag time between when we acquire land for development and when we sell homes in neighborhoods we have planned, developed and constructed. The value of undeveloped land, building lots and housing inventories can fluctuate significantly as a result of changing market conditions. In addition, inventory carrying costs can be significant, and fluctuations in value can result in reduced profits. Economic conditions could result in the necessity to sell homes or land at a loss, or hold land in inventory longer than planned, which could significantly impact our financial condition, results of operations, cash flows, and stock performance. As a result of softened market conditions in all of our markets, since 2006, we have recorded a loss of \$432.3 million for impairment of inventory and investments in unconsolidated LLCs (including \$63.5 million related to discontinued operation), and have written-off \$15.9 million relating to abandoned land transactions (including \$1.5 million related to discontinued operation). It is possible that the estimated cash flows from these inventory positions may change and

could result in a future need to record additional valuation adjustments. Additionally, if conditions in the homebuilding industry worsen in the future, we may be required to evaluate additional inventory for potential impairment, which may result in additional valuation adjustments, which could be significant and could negatively impact our financial results and condition. We cannot make any assurances that the measures we employ to manage inventory risks and costs will be successful.

If we are unable to successfully compete in the highly competitive homebuilding industry, our financial results and growth may suffer.

The homebuilding industry is highly competitive. We compete for sales in each of our markets with national, regional, and local developers and homebuilders, existing home resales and, to a lesser extent, condominiums and available rental housing. Some of our competitors have significantly greater financial resources or lower costs than

we do. Competition among both small and large residential homebuilders is based on a number of interrelated factors, including location, reputation, amenities, design, quality, and price. Competition is expected to continue and become more intense, and there may be new entrants in the markets in which we currently operate and in markets we may enter in the future. If we are unable to successfully compete, our financial results and growth could suffer.

If the current downturn becomes more severe or continues for an extended period of time, it would have continued negative consequences on our operations, financial position, and cash flows.

Continued weakness in the homebuilding industry could have an adverse effect on us. It could require that we write down more assets, dispose of assets, reduce operations, restructure our debt and/or raise new equity to pursue our business plan, any of which could have a detrimental effect on our current shareholders.

Inflation can adversely affect us, particularly in a period of declining home sale prices.

Inflation can have a long-term impact on us because increasing costs of land, materials and labor require us to attempt to increase the sale prices of homes in order to maintain satisfactory margins. Although an excess of supply over demand for new homes, such as the one we are currently experiencing, requires that we reduce prices, rather than increase them, it does not necessarily result in reductions, or prevent increases, in the costs of materials and labor. Under those circumstances, the effect of cost increases is to reduce the margins on the homes we sell. That makes it more difficult for us to recover the full cost of previously purchased land, and has contributed to the significant reductions in the value of our land inventory.

Our lack of geographic diversification could adversely affect us if the homebuilding industry in our markets declines.

We have operations in Ohio, Indiana, Illinois, Maryland, Virginia, North Carolina, and Florida. Our limited geographic diversification could adversely impact us if the homebuilding business in our current markets should continue to decline, since there may not be a balancing opportunity in a stronger market in other geographic regions.

Operational Risks

If we are not able to obtain suitable financing, our business may be negatively impacted.

The homebuilding industry is capital intensive because of the length of time from when land or lots are acquired to when the related homes are constructed on those lots and delivered to homebuyers. Our business and earnings depend on our ability to obtain financing to support our homebuilding operations and to provide the resources to carry inventory. We may be required to seek additional capital, whether from sales of equity or debt, or additional bank borrowings, to support our business. Our ability to secure the needed capital at terms that are acceptable to us may be impacted by factors beyond our control.

Reduced numbers of home sales force us to absorb additional carrying costs.

We incur many costs even before we begin to build homes in a community. These include costs of preparing land and installing roads, sewage and other utilities, as well as taxes and other costs related to ownership of the land on which we plan to build homes. Reducing the rate at which we build homes extends the length of time it takes us to recover these additional costs. Also, we frequently enter into contracts to purchase land and make deposits that may be forfeited if we do not fulfill our purchase obligation within specified periods. Because of current market conditions, we have terminated a number of these contracts, resulting in significant forfeitures of deposits.

The terms of our indebtedness may restrict our ability to operate.

The Second Amended and Restated Credit Agreement dated October 6, 2006 (as amended, the “Credit Facility”) and the indenture governing our senior notes impose restrictions on our operations and activities. The most significant restrictions under the indenture governing our senior notes relate to debt incurrence, sales of assets, cash distributions, and investments by us and certain of our subsidiaries. In addition, our Credit Facility requires compliance with certain financial covenants, including a minimum consolidated tangible net worth requirement and a maximum permitted leverage ratio.

Currently, we believe the most restrictive covenant of the Credit Facility is minimum tangible net worth. Failure to comply with this covenant or any of the other restrictions or covenants of our Credit Facility could result in a default under the Credit Facility, which, in turn, could result in a default under the Credit Facility, which, in turn, could result in a default under the indenture governing our senior notes as well as other related indebtedness. In addition, if a default occurs, the affected lenders could elect to declare the

indebtedness, together with accrued interest and other fees, to be immediately due and payable. Availability under the Credit Facility is also subject to satisfaction of a secured borrowing base. We are permitted to grow the borrowing base by adding additional cash and/or inventory as collateral securing the revolving Credit Facility. We could also be precluded from incurring additional borrowings under our revolving credit facility, which could impair our ability to maintain sufficient working capital. In such a situation, there can be no assurance that we would be able to obtain alternative financing. Any of the foregoing results could have a material adverse effect on our results of operations, financial condition and the ability to operate our business.

The indenture governing our senior notes contains restrictive covenants that limit, among other things, the ability of the Company to pay dividends on common and preferred shares, as well as the ability to repurchase any shares. If our “consolidated restricted payments basket,” as defined in the indenture governing our senior notes, is less than zero, we are restricted from making certain payments, including dividends, as well as repurchasing any shares. We are currently restricted from paying dividends on our common shares and our 9.75% Series A Preferred Shares, as well as repurchasing any shares. We cannot resume making such payments until such time as the basket becomes positive or the senior notes are repaid, and our Board authorizes such payments.

If our financial performance further declines, we may not be able to maintain compliance with the covenants in our credit facilities and senior notes.

Our Credit Facility and the indenture governing our senior notes impose certain restrictions on our operations. The most significant restrictions relate to debt incurrence, sales of assets, cash distributions and investments by us and certain of our subsidiaries. In addition, our Credit Facility requires compliance with certain financial covenants, including a minimum adjusted consolidated tangible net worth requirement and a maximum permitted leverage ratio. Also, while our borrowing capacity under the Credit Facility is \$150 million, and sufficient in today’s current depressed market, we can only borrow up to the amount we have secured by real estate and/or cash in accordance with the provision of our Credit Facility. If markets strengthen, we might have to seek increased borrowing capacity.

While we currently are in compliance with the financial covenants in the Credit Facility, if we had to record significant additional impairments in the future, this could cause us to fail to comply with certain Credit Facility financial covenants. Such an event would give the lenders the right to cause any amounts we owe under Credit Facility to become immediately due. If we were unable to repay the borrowings when they became due, that could entitle the holders of \$200 million senior notes to cause the sums evidenced by those notes to become due immediately. Under such circumstances, we would not be able to repay those amounts without selling substantial assets, which we might have to do at prices well below the long term fair values, and the carrying values, of the assets.

The ability to incur additional indebtedness could magnify other risk factors.

Under the terms of our indebtedness under the indenture governing our senior notes and under the Credit Facility, we have the ability, subject to our debt covenants, to incur additional amounts of debt. The incurrence of additional indebtedness could magnify the risks described above. In addition, certain obligations, such as standby letters of credit and performance and maintenance bonds issued in the ordinary course of business, are not considered indebtedness under the indenture governing our senior notes (and may be secured) and are therefore not subject to limits in our debt covenants.

Our competitive position could suffer if we were unable to take advantage of acquisition opportunities.

Our growth strategy depends in part on our ability to identify and purchase suitable acquisition candidates, as well as our ability to successfully integrate acquired operations into our business. Given current market conditions, executing this strategy by identifying opportunities to purchase, at favorable prices, companies that are having problems contending with the current difficult homebuilding environment, may be particularly important. Not properly

executing this strategy could put us at a disadvantage in our efforts to compete with other major homebuilders who are able to take advantage of such favorable acquisition opportunities.

We could be adversely affected by a negative change in our credit rating.

Our ability to access capital on favorable terms is a key factor in continuing to grow our business and operations in a profitable manner. In 2008, Standard & Poor's, Moody's and Fitch have lowered our credit ratings, which may make it more difficult and costly for us to access capital. A further downgrade by any of the principal credit agencies may exacerbate these difficulties.

Errors in estimates and judgments that affect decisions about how we operate and on the reported amounts of assets, liabilities, revenues and expenses could have a material impact on us.

In the ordinary course of doing business, we must make estimates and judgments that affect decisions about how we operate and on the reported amounts of assets, liabilities, revenues, and expenses. These estimates include, but are not limited to, those related to the recognition of income and expenses; impairment of assets; estimates of future improvement and amenity costs; estimates of sales levels and sales prices; capitalization of costs to inventory; provisions for litigation, insurance and warranty costs; cost of complying with government regulations; and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. On an ongoing basis, we evaluate and adjust our estimates based upon the information then currently available. Actual results may differ from these estimates, assumptions, and conditions.

We conduct certain of our operations through unconsolidated joint ventures with independent third parties in which we do not have a controlling interest. These investments involve risks and are highly illiquid.

We currently operate through a number of unconsolidated homebuilding and land development joint ventures with independent third parties in which we do not have a controlling interest. At December 31, 2008, we had invested an aggregate of \$13.1 million in these joint ventures, which had borrowings outstanding of approximately \$11.7 million. In addition, as part of our operating strategy, we intend to continue to evaluate additional joint venture opportunities.

These investments involve risks and are highly illiquid. There are a limited number of sources willing to provide acquisition, development and construction financing to land development and homebuilding joint ventures, and as the use of joint venture arrangements by us and our competitors increases and as market conditions become more challenging, it may be difficult or impossible to obtain financing for our joint ventures on commercially reasonable terms. In addition, we lack a controlling interest in these joint ventures and therefore are usually unable to require that our joint ventures sell assets or return invested capital, make additional capital contributions or take any other action without the vote of at least one of our venture partners. Therefore, absent partner agreement, we will be unable to liquidate our joint venture investments to generate cash.

The credit agreement of our financial services segment will expire in May 2009.

M/I Financial, our financial services segment, is party to a \$30.0 million Secured Credit Agreement (the "MIF Credit Agreement"). M/I Financial uses the MIF Credit Agreement to finance its lending activities until the loans are delivered to third party buyers. The MIF Credit Agreement will expire on May 21, 2009. If we are unable to replace the MIF Credit Agreement when it matures in May 2009, it could seriously impede the activities of our financial services segment.

If our ability to resell mortgages to investors is impaired, we may be required to broker loans.

We sell substantially all of the loans we originate within a short period of time in the secondary mortgage market on a servicing released, non-recourse basis, although, we remain liable for certain limited representations and warranties related to loan sales. If there is a significant decline in the secondary mortgage market, our ability to sell mortgages could be adversely impacted and it would require us to make arrangements with banks or other financial institutions to fund our buyers' closings. If we became unable to sell loans into the secondary mortgage market or directly to Fannie Mae and Freddie Mac, we would have to modify our origination model, which, among other things, could significantly reduce our ability to sell homes.

Federal laws and regulations that adversely affect liquidity in the secondary mortgage market could hurt our business.

Changes in federal laws and regulations could have the effect of curtailing the activities of Fannie Mae and Freddie Mac. These organizations provide significant liquidity to the secondary mortgage market. Any curtailment of their activities could increase mortgage interest rates and increase the effective cost of our homes, which could reduce demand for our homes and adversely affect our results of operations.

Recent proposed rule change by HUD could negatively impact our operations and revenue.

On November 17, 2008, the United States Department of Housing and Urban Development (“HUD”) issued a final rule (the “Final Rule”) that amended the regulations pertaining to permissible affiliated business arrangements under the Real Estate Settlement Procedures Act. The Final Rule has the effect of prohibiting homebuilders from providing incentives to their buyers for their buyers to use affiliated businesses. The Final Rule was to go into effect on January 16, 2009. A lawsuit has been filed against HUD alleging among other things that HUD did not have the

statutory authority to prohibit such incentives. HUD has agreed to delay the implementation of the Final Rule until at least April 16, 2009 in order to give the court time to decide the legality of the Final Rule. If the Final Rule is implemented, it could have an adverse impact on our homebuilding, mortgage lending, and title company operations.

We compete on several levels with homebuilders that may have greater sales and financial resources, which could hurt future earnings.

We compete not only for home buyers but also for desirable properties, financing, raw materials, and skilled labor, often within larger subdivisions designed, planned and developed by other homebuilders. Our competitors include other local, regional, and national homebuilders, some of which have greater sales and financial resources.

The competitive conditions in the homebuilding industry, together with current market conditions, have resulted in and could continue to result in:

- difficulty in acquiring suitable land at acceptable prices;
- increased selling incentives;
- lower sales; or
- delays in construction.

Any of these problems could increase costs and/or lower profit margins.

Our business requires the use of significant amounts of capital, sources for which may include our Credit Facility. In the event we were to amend our Credit Facility, such amendment could result in lower available commitment amounts and less favorable terms and conditions, which could have a negative impact on our borrowing capacity and/or cash flows.

Our Credit Facility has an aggregate Commitment amount of \$150 million and a maturity date of October 6, 2010. The Credit Facility's provision for letters of credit is available in the aggregate amount of \$100 million. Availability under the Credit Facility is also subject to satisfaction of a secured borrowing base. We are permitted to grow the borrowing base by adding additional cash and/or inventory as collateral securing the revolving Credit Facility. If we were to amend our Credit Facility again in the future, lenders might not be willing to provide credit on terms that are comparable to those governing our existing Credit Facility, in which case our capacity to borrow or issue letters of credit could be reduced significantly, which could require us to use cash or other sources of capital to fund our business operations.

Our net operating loss carryforwards could be substantially limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code.

Based on recent impairments and our current financial performance, we generated net operating loss ("NOL") carryforwards for the year ending December 31, 2008 and it's possible we will generate net NOL carryforwards in future years. Under the Internal Revenue Code, we may use these NOL carryforwards to offset future earnings and reduce our federal income tax liability. As a result, we believe these NOL carryforwards could be a substantial asset for us.

Section 382 of the Internal Revenue Code contains rules that limit the ability of a company that undergoes an "ownership change," which is generally defined as any change in ownership of more than 50% of its common stock over a three-year period, to utilize its NOL carryforwards and certain built-in losses recognized in years after the ownership change. These rules generally operate by focusing on ownership changes among shareholders owning, directly or indirectly, 5% or more of the company's common stock (including changes involving a shareholder becoming a 5% shareholder) or any change in ownership arising from a new issuance of stock by the company.

If we undergo an “ownership change” for purposes of Section 382 as a result of future transactions involving our common shares, including transactions involving a shareholder becoming an owner of 5% or more of our common shares and purchases and sales of our common shares by existing 5% shareholders, our ability to use our NOL carryforwards and recognize certain built-in losses could be limited by Section 382. Depending on the resulting limitation, a significant portion of our NOL carryforwards could expire before we would be able to use them. Our inability to utilize our NOL carryforwards could have a material adverse affect on our financial condition and results of operations.

Cash flows and results of operations could be adversely affected if legal claims are brought against us and are not resolved in our favor.

Claims, including one class action suit, have been brought against us in various legal proceedings that have not had, and are not expected to have, a material adverse effect on our business or financial condition. Should additional claims be filed against us in the future, it is possible that our cash flows and results of operations could be materially and adversely affected, from time to time, by the negative outcome of one or more of such matters.

In the ordinary course of business, we are required to obtain performance bonds, the unavailability of which could adversely affect our results of operations and/or cash flows.

As is customary in the homebuilding industry, we often are required to provide surety bonds to secure our performance under construction contracts, development agreements, and other arrangements. Our ability to obtain surety bonds primarily depends upon our credit rating, capitalization, working capital, past performance, management expertise, and certain external factors, including the overall capacity of the surety market and the underwriting practices of surety bond issuers. The ability to obtain surety bonds also can be impacted by the willingness of insurance companies to issue performance bonds. If we were unable to obtain surety bonds when required, our results of operations and/or cash flows could be impacted adversely.

Changes in accounting principles, interpretations and practices may affect our reported revenues, earnings, and results of operations.

Generally accepted accounting principles and their accompanying pronouncements, implementation guidelines, interpretations, and practices for certain aspects of our business are complex and may involve subjective judgments, estimates and assumptions, such as revenue recognition, inventory valuations, and income taxes. Changes in interpretations could significantly affect our reported revenues, earnings, and operating results, and could add significant volatility to those measures without a comparable underlying change in cash flows from operations.

We can be injured by failures of persons who act on our behalf to comply with applicable regulations and guidelines.

Although we expect all of our employees, officers and directors to comply at all times with all applicable laws, rules, and regulations, there are instances in which subcontractors or others through whom we do business engage in practices that do not comply with applicable regulations or guidelines. When we learn of practices relating to homes we build or financing we provide that do not comply with applicable regulations or guidelines, we move actively to stop the non-complying practices as soon as possible. Sometimes our employees have been aware of these practices but did not take steps to prevent them, and we have taken disciplinary action against such employees, including in some instances, terminating their employment. However, regardless of the steps we take after we learn of practices that do not comply with applicable regulations or guidelines, we can in some instances be subject to fines or other governmental penalties, and our reputation can be injured, due to the practices having taken place.

Tax law changes could make home ownership more expensive or less attractive.

Significant expenses of owning a home, including mortgage interest expense and real estate taxes, generally are deductible expenses for the purpose of calculating an individual's federal, and in some cases state, taxable income. If the government were to make changes to income tax laws that eliminate or substantially reduce these income tax deductions, the after-tax cost of owning a new home would increase substantially. This could adversely impact demand for, and/or sales prices of, new homes.

Our income tax provision and other tax liabilities may be insufficient if taxing authorities are successful in asserting tax positions that are contrary to our position.

From time to time, we are audited by various federal, state and local authorities regarding income tax matters. Significant judgment is required to determine our provision for income taxes and our liabilities for federal, state, local, and other taxes. Our audits are in various stages of completion; however, no outcome for a particular audit can be determined with certainty prior to the conclusion of the audit, appeal and, in some cases, litigation process. Although we believe our approach to determining the appropriate tax treatment is supportable and in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," and Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", it is possible that the final tax authority will take a tax position that is materially different than that which is reflected in our income tax provision and other tax reserves. As each audit is conducted, adjustments, if any, are appropriately recorded in our Condensed Consolidated Financial Statements in the period determined. Such differences could

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have a material adverse effect on our income tax provision or benefit, or other tax reserves, in the reporting period in which such determination is made and, consequently, on our results of operations, financial position and/or cash flows for such period.

We experience fluctuations and variability in our operating results on a quarterly basis and, as a result, our historical performance may not be a meaningful indicator of future results.

We historically have experienced, and expect to continue to experience, variability in home sales and results of operations on a quarterly basis. As a result of such variability, our historical performance may not be a meaningful indicator of future results. Factors that contribute to this variability include: (a) timing of home deliveries and land sales; (b) delays in construction schedules due to strikes, adverse weather, acts of God, reduced subcontractor availability, and governmental restrictions; (c) our ability to acquire additional land or options for additional land on acceptable terms; (d) conditions of the real estate market in areas where we operate and of the general economy; (e) the cyclical nature of the homebuilding industry, changes in prevailing interest rates, and the availability of mortgage financing; and (f) costs and availability of materials and labor.

Homebuilding is subject to warranty and liability claims in the ordinary course of business that can be significant.

As a homebuilder, we are subject to home warranty, personal injury and construction defect claims arising in the ordinary course of business. We record warranty and other reserves for homes we sell based on historical experience in our markets and our judgment of the qualitative risks associated with the types of homes built. We have, and require the majority of our subcontractors to have, general liability, workers' compensation, and other business insurance. These insurance policies protect us against a portion of our risk of loss from claims, subject to certain self-insured retentions, deductibles, and other coverage limits. We reserve for the costs to cover our self-insured retentions and deductible amounts under these policies and for any costs of claims and lawsuits based on an analysis of our historical claims, which includes an estimate of claims incurred but not yet reported. Because of the uncertainties inherent to these matters, we cannot provide assurance that our insurance coverage, our subcontractors' arrangements, and our reserves will be adequate to address all of our warranty, personal injury and construction defect claims in the future. For example, contractual indemnities can be difficult to enforce, we may be responsible for applicable self-insured retentions, and some types of claims may not be covered by insurance or may exceed applicable coverage limits. Additionally, the coverage offered and the availability of general liability insurance for construction defects are currently limited and costly. We have responded to the increases in insurance costs and coverage limitations by increasing our self-insured retentions. There can be no assurance that coverage will not be further restricted and may become even more costly or may not be available at rates that are acceptable to us.

Natural disasters and severe weather conditions could delay deliveries, increase costs, and decrease demand for homes in affected areas.

Several of our markets, specifically our operations in Florida, North Carolina and Washington, D.C., are situated in geographical areas that are regularly impacted by severe storms, hurricanes, and flooding. In addition, our operations in the Midwest can be impacted by severe storms, including tornados. The occurrence of these or other natural disasters can cause delays in the completion of, or increase the cost of, developing one or more of our communities, and as a result could materially and adversely impact our results of operations.

Supply shortages and other risks related to the demand for skilled labor and building materials could increase costs and delay deliveries.

The residential construction industry has, from time to time, experienced significant material and labor shortages in insulation, drywall, brick, cement and certain areas of carpentry and framing, as well as fluctuations in lumber prices and supplies. Any shortages of long duration in these areas could delay construction of homes, which could adversely affect our business and increase costs. To date, we have not experienced any significant issues with availability of

building materials or skilled labor.

We are subject to extensive government regulations, which could restrict our homebuilding or financial services business.

The homebuilding industry is subject to numerous and increasing local, state and federal statutes, ordinances, rules and regulations concerning zoning, resource protection, building design and construction, and similar matters. This includes local regulations that impose restrictive zoning and density requirements in order to limit the number of homes that can eventually be built within the boundaries of a particular location. Such regulation also affects construction activities, including construction materials that must be used in certain aspects of building design, as well as sales activities and other dealings with homebuyers. We must also obtain licenses, permits and approvals from various governmental agencies for our development activities, the granting of which are beyond our

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control. Furthermore, increasingly stringent requirements may be imposed on homebuilders and developers in the future. Although we cannot predict the impact on us to comply with any such requirements, such requirements could result in time-consuming and expensive compliance programs. In addition, we have been, and in the future may be, subject to periodic delays or may be precluded from developing certain projects due to building moratoriums. These moratoriums generally relate to insufficient water supplies or sewage facilities, delays in utility hookups, or inadequate road capacity within the specific market area or subdivision. These moratoriums can occur prior to, or subsequent to, commencement of our operations, without notice or recourse.

We are also subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning consumer protection matters and the protection of health and the environment. These statutes, ordinances, rules, and regulations, and any failure to comply therewith, could give rise to additional liabilities or expenditures and have an adverse affect on our results of operations, financial condition, or business. The particular consumer protection matters regulate the marketing, sales, construction, closing and financing of our homes. The particular environmental laws that apply to any given project vary greatly according to the project site and the present and former uses of the property. These environmental laws may result in delays, cause us to incur substantial compliance costs (including substantial expenditures for pollution and water quality control), and prohibit or severely restrict development in certain environmentally sensitive regions. Although there can be no assurance that we will be successful in all cases, we have a general practice of requiring resolution of environmental issues prior to purchasing land in an effort to avoid major environmental issues in our developments.

In addition to the laws and regulations that relate to our homebuilding operations, M/I Financial is subject to a variety of laws and regulations concerning the underwriting, servicing and sale of mortgage loans.

We are dependent on the services of certain key employees, and the loss of their services could hurt our business.

Our future success depends, in part, on our ability to attract, train, and retain skilled personnel. If we are unable to retain our key employees or attract, train, and retain other skilled personnel in the future, it could materially and adversely impact our operations and result in additional expenses for identifying and training new personnel.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own and operate an approximately 85,000 square foot office building for our home office in Columbus, Ohio and lease all of our other offices.

Due to the nature of our business, a substantial amount of property is held as inventory in the ordinary course of business. See "ITEM 1. BUSINESS – Land Acquisition and Development."

ITEM 3. LEGAL PROCEEDINGS

The Company and certain of its subsidiaries have been named as defendants in various claims, complaints and other legal actions including the legal action described below which are routine and incidental to our business. Certain of the liabilities resulting from these actions are covered by insurance. While management currently believes that the ultimate resolution of these matters, individually and in the aggregate, will not have a material adverse effect on the Company's financial position or results of operations, such matters are subject to inherent uncertainties. The Company has recorded a liability to provide for the anticipated costs, including legal defense costs, associated with the resolution of these matters. However, there exists the possibility that the costs to resolve these matters could differ from the recorded estimates and, therefore, have a material adverse impact on the Company's net income for the

periods in which the matters are resolved. On March 14, 2008, a former employee filed a complaint in the United States District Court, Middle District of Florida, on behalf of himself and those similarly situated, against M/I Homes, Inc., alleging that he and other construction superintendents were misclassified as exempt and not paid overtime compensation under the Fair Labor Standards Act and seeking equitable relief, damages and attorneys' fees. Five other plaintiffs have filed consent forms in order to join the action. The Company filed an answer on or about August 21, 2008 and intends to vigorously defend against the claims.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS
AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common shares are traded on the New York Stock Exchange under the symbol "MHO." As of February 18, 2009, there were approximately 450 record holders of the Company's common shares. At that date, there were 17,626,123 common shares issued and 14,023,982 common shares outstanding. The table below presents the highest and lowest sales prices for the Company's common shares during each of the quarters presented:

	2008	HIGH	LOW
First quarter		\$19.39	\$ 7.21
Second quarter		20.25	14.28
Third quarter		26.00	12.62
Fourth quarter		23.15	5.15
	2007		
First quarter		\$38.25	\$26.46
Second quarter		31.40	25.11
Third quarter		29.74	13.45
Fourth quarter		18.02	8.91

The highest and lowest sales prices for the Company's common shares from January 1, 2009 through February 18, 2009 were \$12.10 and \$6.04, respectively.

The indenture governing our senior notes contains restrictive covenants that limit, among other things, the ability of the Company to pay dividends on common and preferred shares or repurchase any shares. If our "consolidated restricted payments basket," as defined in the indenture governing our senior notes, is less than zero, we are restricted from making certain payments, including dividends, as well as from repurchasing any shares. During the second quarter of 2008, the Company ceased paying dividends due to such covenants. At December 31, 2008, our restricted payments basket was (\$146.8) million. As a result of this deficit, we are currently restricted from paying dividends on our common shares and our 9.75% Series A Preferred Shares, and from repurchasing any shares under our common shares repurchase program that was authorized by our Board of Directors in November 2005. We will continue to be "consolidated restricted until such time that the restricted payments basket" has been restored or our senior notes are repaid, and our Board of Directors authorizes us to resume dividend payments.

Dividends paid to common shareholders totaled \$1.1 million for the year ended December 31, 2008 and \$1.4 million for the year ended December 31, 2007.

Performance Graph

The following graph illustrates the Company's performance in the form of cumulative total return to shareholders for the last five calendar years through December 31, 2008, assuming a hypothetical investment of \$100 and reinvestment of all dividends paid on such investment, compared to the cumulative total return of the same hypothetical investment in both the Standard and Poor's 500 Index and the Standard & Poor's 500 Homebuilding Index.

Index	Period Ending					
	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
M/I Homes, Inc.	100.00	141.44	104.47	98.47	27.24	27.43
S&P 500	100.00	110.88	116.33	134.70	142.10	89.53
S&P 500 Homebuilding Index	100.00	133.64	169.17	135.34	55.63	33.99

Share Repurchases

On November 8, 2005, the Company obtained authorization from the Board of Directors to repurchase up to \$25 million worth of its outstanding common shares. The purchases may occur in the open market and/or in privately negotiated transactions as market conditions warrant. During the twelve month period ended December 31, 2008, the Company did not repurchase any shares. As discussed above, because our "consolidated restricted payments basket" under the indenture governing our senior notes, is less than zero, we are restricted from repurchasing any shares under our common shares repurchase program.

Issuer Purchases of Equity Securities

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (a)
October 1 to October 31, 2008	-	-	-	\$6,715,000
November 1 to November 30, 2008	-	-	-	\$6,715,000
December 1 to December 31, 2008	-	-	-	\$6,715,000
Total	-	-	-	\$6,715,000

(a) As of February 18, 2009, the Company had purchased a total of 473,300 shares at an average price of \$38.63 per share pursuant to the existing Board-approved \$25 million repurchase program that was publicly announced on November 10, 2005, and had approximately \$6.7 million remaining available for repurchase under the \$25 million repurchase program, which expires on November 8, 2010. The indenture governing our senior notes contains a provision that restricts us from repurchasing any shares when the calculation of the "consolidated restricted payment basket," as defined therein, falls below zero. At December 31, 2008, the payment basket is \$(146.8) million and, therefore, we are restricted from repurchasing any shares. We will continue to be restricted until such time that the restricted payments basket has been restored or our senior notes are repaid.

ITEM 6. SELECTED FINANCIAL DATA (a)

The following table sets forth our selected consolidated financial data as of the dates and for the periods indicated. This table should be read together with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Consolidated Financial Statements, including the Notes thereto, appearing elsewhere in this Annual Report on Form 10-K.

(In thousands, except per share amounts)

	2008	2007	2006	2005	2004
Income Statement (Year Ended December 31):					
Revenue	\$ 607,659	\$ 1,016,460	\$ 1,274,145	\$ 1,312,504	\$ 1,132,002
Gross margin (b)	\$ (77,805)	\$ 35,487	\$ 247,719	\$ 329,917	\$ 286,602
Net (loss) income from continuing operations (b) (c)	\$ (245,415)	\$ (92,480)	\$ 29,297	\$ 98,574	\$ 73,516
Discontinued operation, net of tax (a)	\$ (33)	\$ (35,646)	\$ 9,578	\$ 2,211	\$ 18,018
Net (loss) income (c)	\$ (245,448)	\$ (128,126)	\$ 38,875	\$ 100,785	\$ 91,534
Preferred dividends	\$ 4,875	\$ 7,313	\$ -	\$ -	\$ -
Net (loss) income to common shareholders (b) (c)	\$ (250,323)	\$ (135,439)	\$ 38,875	\$ 100,785	\$ 91,534
(Loss) earnings per share to common shareholders:					
Basic: (b) (c)					
Continuing operations	\$ (17.86)	\$ (7.14)	\$ 2.10	\$ 6.89	\$ 5.21
Discontinued operation	\$ -	\$ (2.55)	\$ 0.68	\$ 0.16	\$ 1.28
Total	\$ (17.86)	\$ (9.69)	\$ 2.78	\$ 7.05	\$ 6.49
Diluted: (b) (c)					
Continuing operations	\$ (17.86)	\$ (7.14)	\$ 2.07	\$ 6.78	\$ 5.10
Discontinued operation	\$ -	\$ (2.55)	\$ 0.67	\$ 0.15	\$ 1.25
Total	\$ (17.86)	\$ (9.69)	\$ 2.74	\$ 6.93	\$ 6.35
Weighted average shares outstanding:					
Basic	14,016	13,977	13,970	14,302	14,107
Diluted	14,016	13,977	14,168	14,539	14,407
Dividends per common share	\$ 0.05	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10

Balance Sheet (December 31):

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Inventory	\$	516,029	\$	797,329	\$	1,092,739	\$	984,279	\$	761,077
Total assets (c)	\$	693,288	\$	1,117,645	\$	1,477,079	\$	1,329,678	\$	978,526
Notes payable banks – homebuilding operations	\$	-	\$	115,000	\$	410,000	\$	260,000	\$	279,000
Note payable bank – financial services operations	\$	35,078	\$	40,400	\$	29,900	\$	46,000	\$	30,000
Notes payable banks - other	\$	16,300	\$	6,703	\$	6,944	\$	7,165	\$	8,370
Senior notes – net of discount	\$	199,168	\$	198,912	\$	198,656	\$	198,400		-
Shareholders' equity (c)	\$	333,061	\$	581,345	\$	617,052	\$	592,568	\$	487,611

- (a) In December 2007, we sold substantially all of our assets in our West Palm Beach, Florida market and announced our exit from this market. The results of operations for this market for all years presented have been reclassified as discontinued operation in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."
- (b) 2008, 2007 and 2006 include the impact of charges relating to the impairment of inventory and investment in unconsolidated LLCs, reducing gross margin by \$153.3 million, \$148.4 million and \$67.2, respectively. Those charges, along with the write-off of land deposits, intangibles and pre-acquisition costs, reduced net (loss) income from continuing operations by \$98.3 million, \$96.9 million and \$46.7 million and (loss) earnings per diluted share by \$7.00, \$6.71 and \$3.29 for the years ended December 31, 2008, 2007 and 2006, respectively.
- (c) 2008 net (loss) also reflects a \$108.6 million valuation allowance for deferred tax assets, or \$7.75 per share.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

M/I Homes, Inc. (the "Company" or "we") is one of the nation's leading builders of single-family homes, having delivered over 73,000 homes since we commenced homebuilding in 1976. The Company's homes are marketed and sold under the trade names M/I Homes and Showcase Homes. The Company has homebuilding operations in Columbus and Cincinnati, Ohio; Indianapolis, Indiana; Chicago, Illinois; Tampa and Orlando, Florida; Charlotte and Raleigh, North Carolina; and the Virginia and Maryland suburbs of Washington, D.C. In 2007, the latest year for which information is available, we were the 19th largest U.S. single-family homebuilder (based on homes delivered) as ranked by Builder Magazine.

Included in this Management's Discussion and Analysis of Financial Condition and Results of Operations are the following topics relevant to the Company's performance and financial condition:

- Information Relating to Forward-Looking Statements;
- Our Application of Critical Accounting Estimates and Policies;
- Our Results of Operations;
- Discussion of Our Liquidity and Capital Resources;
- Summary of Our Contractual Obligations;
- Discussion of Our Utilization of Off-Balance Sheet Arrangements; and
- Impact of Interest Rates and Inflation.

FORWARD-LOOKING STATEMENTS

Certain information included in this report or in other materials we have filed or will file with the Securities and Exchange Commission (the "SEC") (as well as information included in oral statements or other written statements made or to be made by us) contains or may contain forward-looking statements, including, but not limited to, statements regarding our future financial performance and financial condition. Words such as "expects," "anticipates," "envisions" "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements involve a number of risks and uncertainties. Any forward-looking statements that we make herein and in future reports and statements are not guarantees of future performance, and actual results may differ materially from those in such forward-looking statements as a result of various risk factors such as:

The U.S. economy is in the midst of an unprecedented combination of economic turmoil, uncertainty in the credit and financial markets, and worldwide concerns of a financial collapse. Prolonged conditions of this nature could severely impact our ability to operate; The homebuilding industry is undergoing a significant downturn, and its duration and ultimate severity are uncertain in the current state of the economy; continued slowdown in our business will continue to adversely affect our operating results and financial condition; Demand for new homes is sensitive to economic conditions over which we have no control, such as the availability of mortgage financing; Increasing interest rates could cause defaults for homebuyers who financed homes using non-traditional financing products, which could increase the number of homes available for resale;

Our land investment exposes us to significant risks, including potential impairment write-downs, that could negatively impact our profits if the market value of our inventory declines;

If we are unable to successfully compete in the highly competitive homebuilding industry, our financial results and growth may suffer;

If the current downturn becomes more severe or continues for an extended period of time, it would have continued negative consequences on our operations, financial position, and cash flows;

Inflation can adversely affect us, particularly in a period of declining home sale prices;

Our lack of geographic diversification could adversely affect us if the homebuilding industry in our markets declines;

If we are not able to obtain suitable financing, our business may be negatively impacted;

Reduced numbers of home sales force us to absorb additional carrying costs;

The terms of our indebtedness may restrict our ability to operate;

If our financial performance further declines, we may not be able to maintain compliance with the covenants in our credit facilities and senior notes;

The ability to incur additional indebtedness could magnify other risk factors;

Our competitive position could suffer if we were unable to take advantage of acquisition opportunities;

We could be adversely affected by a negative change in our credit rating;

Errors in estimates and judgments that affect decisions about how we operate and on the reported amounts of assets, liabilities, revenues and expenses could have a material impact on us;

We conduct certain of our operations through unconsolidated joint ventures with independent third parties in which we do not have a controlling interest. These investments involve risks and are highly illiquid;

The credit agreement of our financial services segment will expire in May 2009;

If our ability to resell mortgages to investors is impaired, we may be required to broker loans;

Federal laws and regulations that adversely affect liquidity in the secondary mortgage market could hurt our business;

Recent proposed rule change by the United States Department of Housing and Urban Development could negatively impact our operations and revenue;

We compete on several levels with homebuilders that may have greater sales and financial resources, which could hurt future earnings;

Our business requires the use of significant amounts of capital, sources for which may include our Credit Facility. In the event we were to amend our Credit Facility, such amendment could result in lower available commitment amounts and less favorable terms and conditions, which could have a negative impact on our borrowing capacity and/or cash flows;

Our net operating loss carryforwards could be substantially limited if we experience an ownership change as defined in the Internal Revenue Code;

Cash flows and results of operations could be adversely affected if legal claims are brought against us and are not resolved in our favor;

In the ordinary course of business, we are required to obtain performance bonds, the unavailability of which could adversely affect our results of operations and/or cash flows;

Changes in accounting principles, interpretations and practices may affect our reported revenues, earnings and results of operations;

We can be injured by failures of persons who act on our behalf to comply with applicable regulations and guidelines;

Tax law changes could make home ownership more expensive or less attractive;

Our income tax provision and other tax liabilities may be insufficient if taxing authorities are successful in asserting tax positions that are contrary to our position;

We experience fluctuations and variability in our operating results on a quarterly basis and, as a result, our historical performance may not be a meaningful indicator of future results;

Homebuilding is subject to warranty and liability claims in the ordinary course of business that can be significant;

Natural disasters and severe weather conditions could delay deliveries, increase costs, and decrease demand for homes in affected areas;

Supply shortages and other risks related to the demand for skilled labor and building materials could increase costs and delay deliveries;

We are subject to extensive government regulations, which could restrict our homebuilding or financial services business; and

We are dependent on the services of certain key employees, and the loss of their services could hurt our business.

These risk factors are more fully discussed in Item 1A. of this report. Any forward-looking statement speaks only as of the date made. Except as required by applicable law or the rules and regulations of the SEC, we undertake no obligation to publicly update any forward-looking statements or risk factors, whether as a result of new information, future events, or otherwise. However, any further disclosures made on related subjects in our subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995, and all of our forward-looking statements are expressly qualified in their entirety by the cautionary statements contained or referenced in this section.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. On an ongoing basis, management evaluates such

estimates and judgments and makes adjustments as deemed necessary. Actual results could differ from these estimates using different estimates and assumptions, or if conditions are significantly different in the future. Listed below are those estimates that we believe are critical and require the use of complex judgment in their application.

Revenue Recognition. Revenue from the sale of a home is recognized when the closing has occurred, title has passed, and an adequate initial and continuing investment by the homebuyer is received, in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 66, “Accounting for Sales of Real Estate,” or when the loan has been sold to a third party investor. Revenue for homes that close to the buyer having a deposit of 5% or greater, home closings financed by third parties, and all home closings insured under FHA or VA government-insured programs are recorded in the financial statements on the date of closing.

Revenue related to all other home closings initially funded by our wholly-owned subsidiary, M/I Financial Corp. (“M/I Financial”), is recorded on the date that M/I Financial sells the loan to a third party investor, because the receivable from the third party investor is not subject to future subordination and the Company has transferred to this investor the usual risks and rewards of ownership that is in substance a sale and does not have a substantial continuing involvement with the home, in accordance with SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.”

All associated homebuilding costs are charged to cost of sales in the period when the revenues from home closings are recognized. Homebuilding costs include land and land development costs, home construction costs (including an estimate of the costs to complete construction), previously capitalized interest, real estate taxes, indirect costs, and estimated warranty costs. All other costs are expensed as incurred. Sales incentives, including pricing discounts and financing costs paid by the Company, are recorded as a reduction of Revenue in the Company’s Consolidated Statements of Operations. Sales incentives in the form of options or upgrades are recorded in homebuilding costs in accordance with Emerging Issues Task Force No. 01-09, “Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of a Vendor’s Products).”

We recognize the majority of the revenue associated with our mortgage loan operations when the mortgage loans and related servicing rights are sold to third party investors. The revenue recognized is reduced by the fair value of the related guarantee provided to the investor. The fair value of the guarantee is recognized in revenue when the Company is released from its obligation under the guarantee. Generally, all of the financial services mortgage loans and related servicing rights are sold to third party investors within two weeks of origination. We recognize financial services revenue associated with our title operations as homes are closed, closing services are rendered, and title policies are issued, all of which generally occur simultaneously as each home is closed. All of the underwriting risk associated with title insurance policies is transferred to third party insurers.

Inventory. We use the specific identification method for the purpose of accumulating costs associated with land acquisition and development, and home construction. Inventory is recorded at cost, unless events and circumstances indicate that the carrying value of the land may be impaired. In addition to the costs of direct land acquisition, land development and related costs (both incurred and estimated to be incurred), and home construction costs, inventory includes capitalized interest, real estate taxes, and certain indirect costs incurred during land development and home construction. Such costs are charged to cost of sales simultaneously with revenue recognition, as discussed above. When a home is closed, we typically have not yet paid all incurred costs necessary to complete the home. As homes close, we compare the home construction budget to actual recorded costs to date to estimate the additional costs to be incurred from our subcontractors related to the home. We record a liability and a corresponding charge to cost of sales for the amount we estimate will ultimately be paid related to that home. We monitor the accuracy of such estimate by comparing actual costs incurred in subsequent months to the estimate. Although actual costs to complete in the future could differ from the estimate, our method has historically produced consistently accurate estimates of actual costs to complete closed homes.

Typically, our building cycle ranges from five to six years, commencing with the acquisition of the entitled land and continuing through the land development phase and concluding with the sale, construction and closing of the homes. Actual community lives will vary, based on the size of the community and the associated absorption rates. Master-planned communities encompassing several phases may have significantly longer lives. Additionally, the current slow-down in the housing market has negatively impacted our sales pace, thereby also extending the lives of certain communities.

The Company assesses inventory for recoverability in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which requires that long-lived assets be reviewed for impairment whenever events or changes in local or national economic conditions indicate that the carrying amount of an asset may not be recoverable. In conducting our quarterly review for indicators of

impairment on a community level, we evaluate, among other things, the margins on homes that have been delivered, margins on sales contracts in backlog, projected margins with regard to future home sales over the life of the community, projected margins with regard to future land sales, and the value of the land itself. We pay particular attention to communities in which inventory is moving at a slower than anticipated absorption pace, and communities whose average sales price and/or margins are trending downward and are anticipated to continue to trend downward. From this review, we identify communities whose carrying values may exceed their undiscounted cash flows. For those communities deemed to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the communities exceeds the fair value of the communities.

Our determination of fair value is based on projections and estimates. Changes in these expectations may lead to a change in the outcome of our impairment analysis. Our analysis is completed on a quarterly basis at a community level; therefore, changes in local conditions may affect one or several of our communities.

For the year ended December 31, 2008, the company evaluated all communities for impairment indicators. A recoverability analysis was performed for 113 communities and an impairment charge was recorded in 97 of those communities. The carrying value of those 97 impaired communities was \$264.0 million at December 31, 2008.

For all of the categories listed below, the key assumptions relating to the valuations are dependent on project-specific local market and/or community conditions and are inherently uncertain. Because each inventory asset is unique, there are numerous inputs and assumptions used in our valuation techniques. Local market-specific factors that may impact these projected assumptions include:

- historical project results such as average sales price and sales rates, if closings have occurred in the project;
- competitors' local market and/or community presence and their competitive actions;
- project specific attributes such as location desirability and uniqueness of product offering;
- potential for alternative product offerings to respond to local market conditions;
- current local market economic and demographic conditions and related trends and forecasts; and
- community-specific strategies regarding speculative homes.

Operating communities. For existing operating communities, the recoverability of assets is measured on a quarterly basis by comparing the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets based on home sales. These estimated cash flows are developed based primarily on management's assumptions relating to the specific community. The significant assumptions used to evaluate the recoverability of assets include: the timing of development and/or marketing phases; projected sales price and sales pace of each existing or planned community; the estimated land development, home construction, and selling costs of the community; overall market supply and demand; the local market; and competitive conditions. Management reviews these assumptions on a quarterly basis. While we consider available information to determine what we believe to be our best estimates as of the end of a reporting period, these estimates are subject to change in future reporting periods as facts and circumstances change. These assumptions vary widely across different communities and geographies and are largely dependent on local market conditions.

Future communities. For raw land or land under development that management anticipates will be utilized for future homebuilding activities, the recoverability of assets is measured by comparing the carrying amount of the assets to future undiscounted cash flows expected to be generated by the assets based on home sales, consistent with the evaluations performed for operating communities discussed above.

For raw land, land under development, or lots that management intends to market for sale to a third party, but that do not meet all of the criteria to be classified as land held for sale as discussed below, the recoverability of the assets is determined based on either the estimated net sales proceeds expected to be realized on the sale of the assets or the estimated fair value determined using cash flow valuation techniques.

If the Company has not yet determined whether raw land or land under development will be utilized for future homebuilding activities or marketed for sale to a third party, the Company assesses the recoverability of the inventory using a probability-weighted approach, in accordance with SFAS 144.

Land held for sale. Land held for sale includes land that meets all of the following six criteria, as defined in SFAS 144: (1) management, having the authority to approve the action, commits to a plan to sell the asset; (2) the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets; (3) an active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated; (4) the sale of the asset is probable, and transfer of the asset is expected to qualify for recognition as a completed sale, within one year; (5) the asset is being actively marketed for sale at a price that is

reasonable in relation to its current fair value; and (6) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. In accordance with SFAS 144, the Company records land held for sale at the lower of its carrying value or fair value less costs to sell. In performing impairment evaluation for land held for sale, management considers, among other things, prices for land in recent comparable sales transactions, market analysis and recent bona fide offers received from outside third parties, as well as actual contracts. If the estimated fair value less the costs to sell an asset is less than the current carrying value, the asset is written down to its estimated fair value less costs to sell.

For all of the above categories, the key assumptions relating to the above valuations are dependent on project-specific local market and/or community conditions and are inherently uncertain. Because each inventory asset is unique, there are numerous inputs and assumptions used in our valuation techniques. Local market-specific factors that may impact our project assumptions include:

- historical project results such as average sales price and sales rates, if closings have occurred in the project;
- competitors' local market and/or community presence and their competitive actions;
- project-specific attributes such as location desirability and uniqueness of product offering;
- potential for alternative product offerings to respond to local market conditions;
- current local market economic and demographic conditions and related trends and forecasts;
- community-specific strategies regarding speculative homes.

These and other local market-specific factors that may impact project assumptions discussed above are considered by personnel in our homebuilding divisions as they prepare or update the forecasted assumptions for each community. Quantitative and qualitative factors other than home sales prices could significantly impact the potential for future impairments. The sales objectives can differ between communities, even within a given sub-market. For example, facts and circumstances in a given community may lead us to price our homes with the objective of yielding a higher sales absorption pace, while facts and circumstances in another community may lead us to price our homes to minimize deterioration in our gross margins, although it may result in a slower sales absorption pace. Furthermore, the key assumptions included in our estimated future undiscounted cash flows may be interrelated. For example, a decrease in estimated base sales price or an increase in home sales incentives may result in a corresponding increase in sales absorption pace. Additionally, a decrease in the average sales price of homes to be sold and closed in future reporting periods for one community that has not been generating what management believes to be an adequate sales absorption pace may impact the estimated cash flow assumptions of a nearby community. Changes in our key assumptions, including estimated construction and development costs, absorption pace, selling strategies, or discount rates, could materially impact future cash flow and fair value estimates.

As of December 31, 2008, our projections generally assume a gradual improvement in market conditions over time, along with a gradual increase in costs. These assumed gradual increases generally begin in 2010, depending on the market and community. If communities are not recoverable based on undiscounted cash flows, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. The fair value of a community is determined by discounting management's cash flow projections using an appropriate risk-adjusted interest rate. As of December 31, 2008, we utilized discount rates ranging from 12% to 15% in the above valuations. The discount rate used in determining each asset's fair value depends on the community's projected life, development stage, and the inherent risks associated with the related estimated cash flow stream as well as current risk free rates available in the market and estimated market risk premiums. For example, construction in progress inventory, which is closer to completion, will generally require a lower discount rate than land under development in communities consisting of multiple phases spanning several years of development. We believe our assumptions on discount rates are critical because the selection of a discount rate affects the estimated fair value of the homesites within a community. A higher discount rate reduces the estimated fair value of the homesites within the community, while a lower discount rate increases the estimated fair value of the homesites within a community.

Our quarterly assessments reflect management's estimates. Due to the uncertainties related to our operations and our industry as a whole as further discussed in Risk Factors beginning on page 12 of this Annual Report on Form 10-K, we are unable to determine at this time if and to what extent continuing changes in our local markets will result in future impairments.

Consolidated Inventory Not Owned. We enter into land option agreements in the ordinary course of business in order to secure land for the construction of homes in the future. Pursuant to these land option agreements, we typically provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at pre-determined prices. If the entity holding the land under option is a variable interest entity, the Company's deposit (including letters of credit) represents a variable interest in the entity, and we must use our

judgment to determine if we are the primary beneficiary of the entity. Factors considered in determining whether we are the primary beneficiary include the amount of the deposit in relation to the fair value of the land, the expected timing of our purchase of the land, and assumptions about projected cash flows. We consider our accounting policies with respect to determining whether we are the primary beneficiary to be critical accounting policies due to the judgment required.

We also periodically enter into lot option arrangements with third-parties to whom we have sold our raw land inventory. We evaluate these transactions in accordance with SFAS No. 49, "Accounting for Product Financing Arrangements," and FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities" ("FIN 46(R)") to determine if we should record an asset and liability at the time we sell the land and enter into the lot option contract.

Investment in Unconsolidated Limited Liability Companies. We invest in entities that acquire and develop land for distribution to us in connection with our homebuilding operations. In our judgment, we have determined that these entities generally do not meet the criteria of variable interest entities because they have sufficient equity to finance their operations. We must use our judgment to determine if we have substantive control or exercise significant influence over these entities. If we were to determine that we have substantive control or exercise significant influence over an entity, we would be required to consolidate the entity. Factors considered in determining whether we have substantive control or exercise significant influence over an entity include risk and reward sharing, experience and financial condition of the other partners, voting rights, involvement in day-to-day capital and operating decisions, and continuing involvement. In the event an entity does not have sufficient equity to finance its operations, we would be required to use judgment to determine if we were the primary beneficiary of the variable interest entity. We consider our accounting policies with respect to determining whether we are the primary beneficiary or have substantive control or exercise significant influence over an entity to be critical accounting policies due to the judgment required. Based on the application of our accounting policies, these entities are accounted for by the equity method of accounting.

In accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Investments In Common Stock," and SEC Staff Accounting Bulletin ("SAB") Topic 5.M, "Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities," the Company evaluates its investment in unconsolidated limited liability companies ("LLCs") for potential impairment on a quarterly basis. If the fair value of the investment is less than the investment's carrying value and the Company has determined that the decline in value is other than temporary, the Company would write down the value of the investment to fair value. The determination of whether an investment's fair value is less than the carrying value requires management to make certain assumptions regarding the amount and timing of future contributions to the LLC, the timing of distribution of lots to the Company from the LLC, the projected fair value of the lots at the time of distribution to the Company, and the estimated proceeds from, and timing of, the sale of land or lots to third parties. In determining the fair value of investments in unconsolidated LLCs, the Company evaluates the projected cash flows associated with the LLC using a probability-weighted approach based on the likelihood of different outcomes. As of December 31, 2008, the Company used a discount rate of 15% in determining the fair value of investments in unconsolidated LLCs. In addition to the assumptions management must make to determine if the investment's fair value is less than the carrying value, management must also use judgment in determining whether the impairment is other than temporary. The factors management considers are: (1) the length of time and the extent to which the market value has been less than cost; (2) the financial condition and near-term prospects of the Company; and (3) the intent and ability of the Company to retain its investment in the limited liability company for a period of time sufficient to allow for any anticipated recovery in market value. In situations where the investments are 100% equity financed by the partners, and the joint venture simply distributes lots to its partners, the Company evaluates "other than temporary" by preparing an undiscounted cash flow model as described in inventory above for operating communities. If such model results in positive value versus carrying value, and the fair value of the investment is less than the investment's carrying value, the Company determines that the impairment is temporary; otherwise, the Company determines that the impairment is other than temporary and impairs the investment. Because of the high degree of judgment involved in developing these assumptions, it is possible that the Company may

determine the investment is not impaired in the current period but, due to passage of time or change in market conditions leading to changes in assumptions, impairment could occur.

Guarantees and Indemnities. Guarantee and indemnity liabilities are established by charging the applicable income statement or balance sheet line, depending on the nature of the guarantee or indemnity, and crediting a liability. M/I Financial provides a limited-life guarantee on loans sold to certain third parties and estimates its actual liability related to the guarantee and any indemnities subsequently provided to the purchaser of the loans in lieu of loan repurchase based on historical loss experience. Actual future costs associated with loans guaranteed or indemnified could differ materially from our current estimated amounts. The Company has also provided certain other guarantees and indemnifications in connection with the purchase and development of land, including environmental indemnifications, guarantees of the completion of land development, a loan maintenance and limited payment

guaranty, and minimum net worth guarantees of certain subsidiaries. The Company estimates these liabilities based on the estimated cost of insurance coverage or estimated cost of acquiring a bond in the amount of the exposure. Actual future costs associated with these guarantees and indemnifications could differ materially from our current estimated amounts.

Warranty. Warranty accruals are established by charging cost of sales and crediting a warranty accrual for each home closed. The amounts charged are estimated by management to be adequate to cover expected warranty-related costs for materials and outside labor required under the Company's warranty programs. Accruals are recorded for warranties under the following warranty programs:

- Home Builder's Limited Warranty – warranty program which became effective for homes closed starting with the third quarter of 2007;
- 30-year transferable structural warranty – effective for homes closed after April 25, 1998;
- two-year limited warranty program – effective prior to the implementation of the Home Builder's Limited Warranty; and
- 20-year transferable structural warranty – effective for homes closed between September 1, 1989 and April 24, 1998.

The warranty accruals for the Home Builder's Limited Warranty and two-year limited warranty program are established as a percentage of average sales price, and the structural warranty accruals are established on a per unit basis. Our warranty accruals are based upon historical experience by geographic area and recent trends. Factors that are given consideration in determining the accruals include: (1) the historical range of amounts paid per average sales price on a home; (2) type and mix of amenity packages added to the home; (3) any warranty expenditures included in the above not considered to be normal and recurring; (4) timing of payments; (5) improvements in quality of construction expected to impact future warranty expenditures; (6) actuarial estimates, which reflect both Company and industry data; and (7) conditions that may affect certain projects and require a different percentage of average sales price for those specific projects.

Changes in estimates for warranties occur due to changes in the historical payment experience and differences between the actual payment pattern experienced during the period and the historical payment pattern used in our evaluation of the warranty accrual balance at the end of each quarter. Actual future warranty costs could differ from our current estimated amount.

Self-insurance. Self-insurance accruals are made for estimated liabilities associated with employee health care, Ohio workers' compensation, and general liability insurance. Our self-insurance limit for employee health care is \$250,000 per claim per year for fiscal 2008, with stop loss insurance covering amounts in excess of \$250,000 up to \$2,000,000 per claim per year. Our self-insurance limit for workers' compensation is \$400,000 per claim, with stop loss insurance covering all amounts in excess of this limit. The accruals related to employee health care and workers' compensation are based on historical experience and open cases. Our general liability claims are insured by a third party; the Company generally has a \$7.5 million deductible per occurrence and an \$18.25 million deductible in the aggregate, with lower deductibles for certain types of claims. The Company records a general liability accrual for claims falling below the Company's deductible. The general liability accrual estimate is based on an actuarial evaluation of our past history of claims and other industry specific factors. The Company has recorded expenses totaling \$0.9 million, \$3.8 million and \$7.0 million, respectively, for all self-insured and general liability claims during the years ended December 31, 2008, 2007 and 2006. Because of the high degree of judgment required in determining these estimated accrual amounts, actual future costs could differ from our current estimated amounts.

Stock-Based Compensation. We account for stock-based compensation in accordance with the provisions of SFAS No. 123(R), "Share Based Payment," which requires that companies measure and recognize compensation expense at an

amount equal to the fair value of share-based payments granted under compensation arrangements. We calculate the fair value of stock options using the Black-Scholes option pricing model. Determining the fair value of share-based awards at the grant date requires judgment in developing assumptions, which involve a number of variables. These variables include, but are not limited to, the expected stock price volatility over the term of the awards, the expected dividend yield, and the expected term of the option. In addition, when we first issue share-based awards, we also use judgment in estimating the number of share-based awards that are expected to be forfeited.

Derivative Financial Instruments. To meet financing needs of our home-buying customers, M/I Financial is party to interest rate lock commitments (“IRLCs”), which are extended to customers who have applied for a mortgage loan and meet certain defined credit and underwriting criteria. These IRLCs are considered derivative financial instruments under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS 133”).

M/I Financial manages interest rate risk related to its IRLCs and mortgage loans held for sale through the use of forward sales of mortgage-backed securities (“FMBSs”), use of best-efforts whole loan delivery commitments and the occasional purchase of options on FMBSs in accordance with Company policy. These FMBSs, options on FMBSs, and IRLCs covered by FMBSs are considered non-designated derivatives. The Company adopted SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities,” and SAB No. 109, “Written Loan Commitments Recorded at Fair Value Through Earnings,” for IRLCs entered into in 2008. In determining fair value of IRLCs, M/I Financial considers the value of the resulting loan if sold in the secondary market. The fair value includes the price that the loan is expected to be sold for along with the value of servicing release premiums. The fair value of IRLCs entered into in 2007 and before excludes the value of the servicing release premium in accordance with the applicable accounting guidance at that time. This determines the initial fair value, which is indexed to zero at inception. Subsequent to inception, M/I Financial estimates an updated fair value which is compared to the initial fair value. In addition, M/I Financial uses fallout estimates which fluctuate based on the rate of the IRLC in relation to current rates. In accordance with SFAS 133 and related Derivatives Implementation Group conclusions, gains or losses are recorded in financial services revenue. Certain IRLCs and mortgage loans held for sale are committed to third party investors through the use of best-efforts whole loan delivery commitments. In accordance with SFAS 133, the IRLCs and related best-efforts whole loan delivery commitments, which generally are highly effective from an economic standpoint, are considered non-designated derivatives and are accounted for at fair value, with gains or losses recorded in financial services revenue. Under the terms of these best-efforts whole loan delivery commitments covering mortgage loans held for sale, the specific committed mortgage loans held for sale are identified and matched to specific delivery commitments on a loan-by-loan basis. The delivery commitments are designated as fair value hedges of the mortgage loans held for sale, and both the delivery commitments and loans held for sale are recorded at fair value, with changes in fair value recorded in financial services revenue.

Income Taxes—Valuation Allowance. In accordance with SFAS No. 109, “Accounting for Income Taxes,” a valuation allowance is recorded against a deferred tax asset if, based on the weight of available evidence, it is more-likely-than-not (a likelihood of more than 50%) that some portion or the entire deferred tax asset will not be realized. The realization of a deferred tax asset ultimately depends on the existence of sufficient taxable income in either the carryback or carryforward periods under applicable tax law. The four sources of taxable income to be considered in determining whether a valuation allowance is required include:

- future reversals of existing taxable temporary differences (i.e., offset gross deferred tax assets against gross deferred tax liabilities);
- taxable income in prior carryback years;
- tax planning strategies; and
- future taxable income, exclusive of reversing temporary differences and carryforwards.

Determining whether a valuation allowance for deferred tax assets is necessary requires an analysis of both positive and negative evidence regarding realization of the deferred tax assets. Examples of positive evidence may include:

- a strong earnings history exclusive of the loss that created the deductible temporary differences, coupled with evidence indicating that the loss is the result of an aberration rather than a continuing condition;
- an excess of appreciated asset value over the tax basis of a company’s net assets in an amount sufficient to realize the deferred tax asset; and
- existing backlog that will produce more than enough taxable income to realize the deferred tax asset based on existing sales prices and cost structures.